



WASHINGTON STATE DEPARTMENT OF
Natural Resources
Doug Sutherland - Commissioner of Public Lands

Notice of Sealed Bid Public Auction to Lease
State Trust Lands for
**Orchard and/or Vineyard (Option 1), or
Winery, Vineyard and Orchard (Option 2)**

**Paterson Lease Parcels
Application Nos. 79620, 79621 & 79622**

The State of Washington, Department of Natural Resources, hereinafter called the "State", is offering to lease at sealed bid public auction, State trust land located in Benton County, Washington. Bidders may bid on any combination of the three parcels and may propose one of the following lease options for each parcel:

- Option 1: 25-year lease authorizing orchard and/or vineyard.
Option 2: 55-year lease authorizing a winery and vineyard, with orchard use authorized if proposed by bidder.

Bidders may combine the uses by proposing a winery for one or more parcels and leasing one or more other parcels for orchard and/or vineyard use. Each parcel, however, may be covered by a separate lease subject to the term limitations set forth above.

Bidders may make their bids contingent on acquiring one, two, or all three parcels, or any combination thereof. The bid must make such a contingency clear in the proposal. For example, if a bidder proposes to lease Parcel 1 for a winery but conditions the proposal on also acquiring Parcel 2 for an orchard/vineyard, the proposal must expressly set forth such a condition. The proposal will then be considered in light of alternative bids for Parcels 1 and 2. If the bidder fails to make the condition(s) clear, the state will consider a bid on Parcels 1 and 2 as independent bids.

Sealed bids will be opened on October 26, 2006, at 2:00 p.m. at the region office of the State, whose address is noted below. All bids must be received no later than this date and time.

Bids must be placed in a sealed envelope and marked as follows:

Sealed Bid
Date: October 26, 2006
Paterson Lease Parcels

STATE OF WASHINGTON
DEPARTMENT OF NATURAL RESOURCES
SOUTHEAST REGION OFFICE
713 BOWERS ROAD
ELLENBURG, WA 98926

1. GENERAL INFORMATION:

A. Property Information

The State is offering for lease three parcels within portions of Sections 4, 5, and 8, Township 5 North, Range 26 East, W.M., and Sections 32 and 33, Township 6 North, Range 26 East, W.M., Benton County, Washington, as shown on Attachment 5.

The approximate legal descriptions for the three parcels are:

Parcel 1:

Portions of Section 32, Township 6 North, Range 26 East, together with portions of the N½NW¼ of Section 5, Township 5 North, Range 26 East, lying north of the block road designated as “Road 7”. Parcel one contains approximately 279 acres, more or less.

Parcel 2:

Portions of Section 5, and portions of the N½N½ Section 8, Township 5 North, Range 26 East. Parcel two contains approximately 524.5 acres, more or less.

Parcel 3:

Portions of the S½SE¼ of Section 32, and portions of the SW¼SW¼ of Section 33, Township 6 North, Range 26 East, together with portions of the W½ of Section 4, and portions of the NE¼ of Section 5, Township 5 North, Range 26 East, encompassing two center pivots and adjacent properties. Parcel three contains approximately 339.5 acres, more or less. This parcel is encumbered by two leases covering the center-pivots through November 30, 2008.

The State will verify and flag the parcel boundaries prior to development of the lease premises.

- 1) Permitted Use(s):
Option 1: A 25-year lease authorizing vineyard and/or orchard.
Option 2: A 55-year lease authorizing a winery and vineyard, with orchard use authorized if proposed by bidder.
- 2) General location: Approximately ½ mile northeast of Paterson, Washington. The parcel lies within the Horse Heaven Hills Appellation.
- 3) Access: Access is provided via State Highway 221 and from State Highway 14.

- 4) Water: There are three water rights associated with the parcels: Ground Water Certificate No. G4-28427C, and Surface Water Certificates S4-26501C and S4-28284C.

Irrigation water will be delivered through the South Slope Irrigation Association (SSIA) according to the terms of the Contract for Delivery of Water for Irrigation, Frost Control and Orchard Cooling, Attachment 7.

The right to use this water is set forth more fully under Section B Existing Improvements.

- 5) In the event there is more than one successful bidder, it is understood that:
- a) The State will reconfigure the irrigation system into separate systems for each leased parcel; and
 - b) The successful bidders will prepare and execute an irrigation management agreement, including frost control if needed, and a road use agreement between all parties no later than April 1, 2007.

B. Existing Improvements

Irrigation Water

Water is provided to the premises via a delivery system from the South Slope Irrigation Association (SSIA). The lessee will be responsible for paying all assessed charges for water and management fees from the SSIA.

In addition, there is one well located in the NW¹/₄NW¹/₄ of Section 5 (located within Parcel 2) that is covered under Department of Ecology Ground Water Certificate No. G4-28427C. This certificate references the following water uses: 5 acre-feet per year for continuous domestic supply for 4 cabins, 1 office, 1 shop and a campsite; 39 acre-feet per year for frost control; and 1,040 acre-feet per year to be used for supplemental irrigation of 1,153.88 acres.

If all parcels are leased to one entity, the lessee shall, at its sole expense, furnish and install the pump(s), electrical panel, mainlines, and all other development necessary for irrigating the lease premises.

If all parcels are not leased to one entity, the State proposes to develop, at state's cost, the following irrigation system components: install the necessary valves and meters to each parcel for the purpose of providing irrigation water and monitoring systems. All other development necessary for irrigating the lease premises shall be the responsibility of the Lessee.

The State's participation in the development is limited as set forth above. It is anticipated that any work by the State will be completed within 120 days of lease signing. The State will not be responsible for any damages that result from failure to complete the project by this tentative date.

Winery Water

Department of Ecology Ground Water Certificate No. G4-28427C does not authorize use of water for a winery. Bidders will need to determine for themselves if water is available for winery use under a general exemption under the water code or other authority from DOE and whether such water could be withdrawn from the DNR well. In the event all parcels are not leased to the same entity, a bidder proposing to build a winery may need to drill its own well for the water needs of the winery.

The State does not guarantee or warrant the quality or quantity of any water or water supply. The State has no liability for any water related problems such as, but not limited to, lack, contamination, failure, excess shortage, interruption or stoppage of water.

Existing Improvements by Parcel:

Parcel 1:

Improvements

Apricot Trees (36.39 acres)
Apple Trees (63.62 acres)
Irrigation Distribution System
Irrigation System

Location

S½ of Sec 32
Throughout in various blocks
Throughout
Throughout

Parcel 2:

Improvements

Cherry Trees (54.5 acres)
Apple Trees (24 acres)
Irrigation Well (400 hp pump and motor)
Irrigation Distribution System
Irrigation System
Shop
Double-Wide Mobile Home
Two (2) Single-Wide Mobile Homes
Domestic Well

Location

NW¼ of Section 5
SE¼ of Section 5
NW¼NW¼ of Section 5
Throughout
Throughout
NE¼ of Section 5
NE¼ of Section 5
NE¼ of Section 5
NE¼ of Section 5

Parcel 3:

Improvements

Center Pivot Irrigation System
Center Pivot Irrigation System

Location

SE¼ of Sec 32 and NE¼ of Sec 5
S½NW¼ and the N½SW¼ of Sec 4

C. Special Requirements

Conservation Plan. The successful bidder shall agree to, and comply with a conservation plan prepared and approved by the Natural Resources Conservation Service prior to disturbing any vegetation or soil on the lease premises. The successful bidder shall furnish to the State a copy of the approved conservation plan fifteen (15) days prior to disturbing any vegetation or soil on the lease premises.

Roads and Irrigation Improvements

Single Lessees. If all three parcels are leased to one entity, that entity shall be responsible for all irrigation system and road costs, including but not limited to construction, operation and maintenance.

Formal Cooperative Agreement. If all three parcels are not leased to one entity, then the successful bidders shall enter into an irrigation, frost control, and road use agreement (Formal Cooperative Agreement) forming a users group within 60 days of all parties having signed their leases to construct and maintain the road system and irrigation delivery system. The Formal Cooperative Agreement shall specifically provide that, in the event of termination of any lease, the state shall have a right to substitute a different lessee as a party to the Agreement upon the substitute lessee assuming the responsibilities of a former lessee. This provision shall be deemed a term of each lease and is incorporated therein by this reference.

The purpose of the Users Group is to oversee, construct, operate and maintain the common interests of the leaseholders of the parcels. The following items are considered to be common interests at this time, with additional items to be agreed upon as required:

- 1) Common roads need to be constructed and maintained. The Users Group shall jointly construct and maintain roads common to all leases, and that access the well and pump. A map is included showing an anticipated general layout of those roads. The Users Group will determine the final layout of those roads, the construction methodology, and reimbursement for their construction and maintenance cost share.
- 2) The irrigation system including frost control will need to be operated and maintained. The State will provide the items noted under Section 1B of this notice. The Users Group will need to develop a methodology for payment of pro rated share of the associated power bills and any required common system maintenance.

D. Attachments

Attached to this notice is the following supplementary information:

- 1) Proposed Winery & Vineyard Lease, is available upon request by calling 509-925-8510 or visiting the DNR website at www.wadnr.gov and downloading the sample document.
- 2) Proposed Orchard/Vineyard Lease is available upon request by calling 509-925-8510 or visiting the DNR website at www.wadnr.gov and downloading the sample document.
- 3) Location Map
- 4) Topography Map
- 5) Lease Premises and Parcel Map
- 6) Water Permits
- 7) Certificate of Record RE: Contract for Delivery of Water for Irrigation, Frost Control and Orchard Cooling
- 8) Bid Summary Sheet for Option 1
- 9) Bid Summary Sheet for Option 2

2. BIDDER PROPOSAL

A. Acreage and Production Requirements for Winery & Vineyard proposals

To qualify for a 55-year Winery & Vineyard lease, the Lessee shall plant a wine grape vineyard and process to wine from those grapes through the winery located on the site. Any proposed winery must meet the minimum level of production, as stated below:

Parcel/lease acres	Minimum Vineyard Acres	Minimum Winery Production
Parcel 1 279.00 acres	139.5	41,850 Cases of Wine
Parcel 2 524.50 acres	262.25	78,675 Cases of Wine
Parcel 3 339.50 acres	169.75	50,925 Cases of Wine
All 3 parcels 1,143 acres	571.5	171,450 Cases of Wine

Note: The above requirement is based upon one-half of the production acreage for each parcel being committed to wine grapes and processed through an on-site winery.

Production capacity is based on an industry standard of 300 cases of wine per acre (5 tons of wine grapes per acre at 60 cases per ton.)

B. Bid Proposal, Required Elements of the Plan of Development

Each bidder shall submit a proposal for development, which includes the elements listed below.

Winery Plan of Development Requirements

Any bidder proposing to construct a winery shall submit details on the winery project:

- number of buildings, type of buildings (factory, storage, tasting rooms, parking, landscaping, etc) with drawings and with dimensions by estimated square footage of each building;
- estimated completion date for all structures;
- estimated annual production of wine in gallons; and
- estimated sale volume by year until maximum production capacity is realized.

The Lessee shall be required to submit detailed engineering and/or architectural plans and drawings 180 days prior to the date of construction for approval by the State.

Orchard and/or Vineyard Plan of Development Requirements

Any bidder proposing to operate an orchard and/or vineyard shall submit a specific plan for developing the premises for the irrigation of tree fruits and/or wine grapes. This plan shall contain cost estimates, maps and completion dates with regard to at least the following items, where applicable:

- 1) Land clearing and soil preparation. Include acreages and equipment to be used.
- 2) List permanent fixtures such as buildings (including petroleum and chemical storage and mixing facilities), fences, windbreaks, and other improvements to be placed on the premises.
- 3) Irrigation system. The proposed lease requires a plan and states minimum specifications for the irrigation system. If the bidder proposes to lease all 3 parcels, bidder shall assume that State will not provide those portions of the irrigation system referenced in Section 1B, and the irrigation system plan shall cover all irrigation components associated with developing those 3 parcels. For the purposes of preparing a bid, state at least the following:

- a) General location of all irrigation pipelines, pumping facilities, final delivery and application points, system control valves and all other major system components.
 - b) Pressure and flow rate requirements at delivery points.
 - c) Any features unique to the proposed irrigation system.
- 4) Income and expense budgets for each enterprise, and for each year of the lease term.
 - 5) Frost protection, variety selection, rootstock selection, planting space in and between rows by variety, and type of tree/vine support, e.g., trellises.

C. Rental Payment. Each bidder is to submit a bid for each rent component that applies to their proposed development scenario.

Annual Winery Lease Rent

Winery Footprint Rent. Footprint rent shall be fixed as follows: \$0.50 per square foot of floor space of the winery as measured from outside dimensions and/or as reported to the Benton County Tax Assessor's office, including any storage or other buildings associated with the winery and \$0.025 per square foot of space for all parking, landscaping and picnic grounds.

Winery Production Rent. The minimum bid for production rent shall be \$0.35 per U.S gallon produced. Offers in excess of the minimum must be in increments of no less than \$0.01 per gallon. Bidder shall identify the minimum number of gallons to be produced, which production level shall be the basis for the minimum Production Rent under the lease whether such production level is reached or not. Bidder shall also estimate the full capacity of production for the winery during the term of the lease.

Vineyard Lease Rent associated with a Winery (Option 2)

Vineyard Rent. A per acre annual rent for each acre devoted to growing wine grapes equal to or exceeding the amounts set forth below**.

\$100 for years 2007, 2008, and 2009; and
\$400 for years 2010 and thereafter.

**Vineyard Rent payment is the minimum acceptable bid for the lease. Offers for additional cash payment must be in increments of \$5.00 or more per acre.

Vineyard Lease Rent associated with an Orchard/Vineyard Lease (Option 1)

Vineyard Percentage Rent. The Lessee shall pay the State the following percentage of the Return to Grower from the crops grown and harvested on the lease premises:

CROP	STATE'S PERCENTAGE
Wine Grapes	5.00%

Vineyard Percentage Rent above is the minimum acceptable rent and any increase in percentage must be a part of the sealed bid. [Increases in percentage must be in increments of one tenth of one percent or more (i.e., 0.1%).]

Orchard Lease Rent under both Options 1 and 2

Orchard Production Rent. For each crop year, the Lessee shall pay by November 1 of that year, the following production rent based on the gross production from the crops grown and harvested on the lease premises subject to the terms of the lease:

CROP	STATE'S PRODUCTION RENT
Apples	\$8.00 per Bin*
Cherries	\$60.00 per Ton *
Organic Apples	\$12.00 per Bin*
Apricots	\$50.00 per Ton*

For the purposes of this lease, Gross Production is defined as the total amount of agricultural commodity harvested. No deduction shall be made for any on-farm sales. Costs incurred by the Lessee in establishing, growing, or harvesting the crops are irrelevant to this calculation.

* A Bin is defined as the current standard apple bin with dimensions of four feet x four feet x thirty inches. A Ton is 2000 pounds.

Orchard Production Rent above is the minimum acceptable rent and any increase in price per bin or per ton must be a part of the sealed bid. [Increases in price per bin must be in increments of \$0.10 or more. Increases in price per ton must be in increments of \$1.0]

D. Bonus Bid Deposit

As provided for in Section 2D of this notice, the bidder may include as part of the required deposit, a cash bonus bid. The cash bonus bid is a one-time payment, subject to leasehold tax, and is in addition to all other payments. The amount of cash bonus bid offered will be considered in determining which bid is most beneficial to the State. Each bid is required to contain a check, certified check, or money order, payable to the Commissioner of Public Lands equal to the amount of cash bonus bid, plus leasehold tax of 12.84%.

3. SEALED BIDS:

In addition to the bidder's proposal elements required under Section 2, the following items and information must be included in the sealed bid packet and individually identified in the order shown:

A. General Information

Name, address and telephone number of the bidder, and any other individual who can be contacted for further information. If the entity which will execute the lease is different than the bidder, please provide entity name, address and telephone number.

B. Financial Statement

For each individual and/or entity who will execute the lease, provide:

- 1) A current net worth statement, and
- 2) One or more letters from financial institutions (established bank, insurance company or other commercial lending agency), or prospective lenders attesting to net worth and/or evidence of financial resources and ability to complete the lease operation and/or development as proposed.

This information will be held confidential to the extent permitted by law.

C. Qualifications

1) Vineyard:

Two (2) years of work experience by the bidder, or operator, in all phases of successful management of irrigated grapes; including planting, irrigating, pruning, thinning, rodent, insect and weed control, harvesting, knowledge of handling, storage and marketing. References attesting to this experience are required from a warehouse, processor, buyer and/or other appropriate local business unless the bidder and/or entity which will execute the lease has established their qualifications as the holder of an active irrigated vineyard State lease.

2) Orchard:

Two (2) years of work experience by the bidder, or operator, in all phases of successful management of irrigated tree fruit; including planting, irrigating, pruning, thinning, rodent, insect and weed control, harvesting, knowledge of handling, storage and marketing. References attesting to this experience are required from a warehouse, processor, buyer and/or other appropriate local business unless the bidder and/or entity which will execute the lease has established their qualifications as the holder of an active irrigated orchard State lease.

3) Winery:

The bidder or operator, or an operating manager, or contracted consultant(s) shall have a minimum of five (5) years of winery production and marketing experience in all phases of successful management of a winery operation. This should include the evaluation of and procurement of wine grapes for the purpose of wine making and/or processing, pressing, fermentation, aging, bottling, storage, finished goods storage and a multi-marketing program. If the bidder is unknown to the state, references attesting to this experience maybe required from an acceptable source or entity.

4. **SEALED BID EVALUATION AND AWARD OF LEASE:**

- A. At the time and place previously specified in this notice, the bids will be opened and recorded by at least two (2) representatives of the State.
- B. Each item outlined in Sections 2 and 3 of this notice must be included or the bid may be rejected. The State will review each bid proposal. If there are any questions about the bid proposal resulting from this review, the State may contact the bidder prior to making a decision.

- C. The State will choose a successful bidder after all bids have been evaluated to determine which offer is most beneficial to the State.
- D. A lease in substantially the same form as one, both, or some combination of the attached proposed leases will be submitted to the successful bidder.

If the offered lease is not signed and returned to the State within twenty (20) days of mailing the lease to the successful bidder, any claim to the lease and the prepaid deposit may be forfeited to the State, at the option of the State, as fixed, agreed and liquidated damages, but not as a penalty. A lease may then be offered to the bidder who submitted the next most beneficial bid.

- E. Deposits will be returned to all unsuccessful bidders within sixty (60) days of the auction, or upon the State's receipt of a signed lease from the successful bidder, whichever occurs first.
- F. The State reserves the right to waive any irregularity in any bid, to reject any and all bids, and to accept any bid although it may not purport to offer the highest financial return if that bid appears to be in the best interest of the State. All bids become the property of the State and will not be returned.

The lands described herein will be leased, subject to all terms, conditions and reservations of the statutes now provided for the leasing of lands under the jurisdiction of the Washington State Department of Natural Resources.

The information contained in this Notice is of a general nature only. It is the responsibility of the bidder to review the attached lease.

Executed on behalf of the Commission of Public Lands this 14th day of September 2006.

STATE OF WASHINGTON
DEPARTMENT OF NATURAL RESOURCES

/S/

WILLIAM O. BOYUM
Southeast Region Manager